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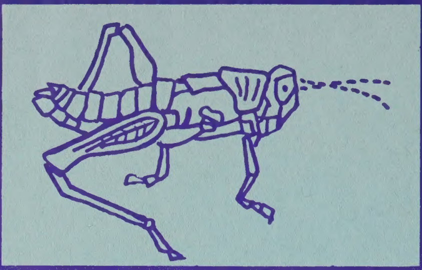
CROP INSURANCE

Advantages of Crop Insurance and what the Amended Federal Act offers

CANADA DEPARTMENT OF AGRICULTURE



THE Federal Crop Insurance Act provides an opportunity for a provincial government to develop a program of crop insurance suited to the particular needs of that province, and permits Canada to make a reasonable contribution to the development of that program.

Crop insurance is a means of providing farmers with protection on the money invested in crops against the losses due to natural causes. It has the specific function of spreading losses over large areas and many years in order that you may substitute annual premiums for irregular and unpredictable losses. And, of course, every scheme must be, taking into consideration federal and provincial contributions, established on a basis which is self-sustaining.

Farmers and farm organizations have for many years been advocating some form of crop insurance and in a number of countries in the world various types of schemes have been experimented with. Only the United States has, however, been able to develop any large-scale program. This scheme has been in operation since 1946, following a period of several years spent in accumulation of knowledge through test programs. The American plan has been largely used as a basis for formation of the schemes presently operating in Manitoba and Saskatchewan. Under the Canadian constitution, insurance comes under the jurisdiction of the provinces, and so any legislation dealing with the establishment of a crop insurance plan must be provided by the provincial governments.

Provincial authorities have carried out many studies of insurance proposals and some provinces have set up special commissions to report on the feasibility of such schemes. Generally the provinces have decided that the potential liabilities involved particularly in the initial stages of any scheme would be such that the risk would be too large for any province to take without federal support.

WHAT FEDERAL CROP INSURANCE ACT OFFERS

In July of 1959 the federal government passed the Crop Insurance Act. Under this enabling legislation Canada may enter into agreements with any province which establishes a crop insurance scheme to provide assistance in the form of contributions and loans.

The Act provides that Canada will pay 50 per cent of the administrative costs of any insurance scheme plus 20 per cent of the premiums paid in any year. The contribution of 20 per cent of the premiums is similar to that paid by Canada to the Unemployment Insurance Fund.

In addition, Canada may in any year loan to a province up to 75 per cent of the amount by which indemnities exceed premium income plus reserves plus $200,000.

Recent amendments to the Act provide that, as an alternative to the above loan provision, a province may reinsure a major portion of its liability with the federal government.

Under this new legislation a province may pay annual, actuarially calculated reinsurance premiums to Canada in consideration of which Canada will, in any year, pay to the province 75 per cent of the amount by which indemnities exceed premiums, plus reserves, plus $2\frac{1}{2}$ per cent of the total liability carried by the province under policies of insurance in effect in that year.

There is no compulsory feature in crop insurance but the agreements now in force provide that at least 25 per cent of the farmers in any area covered by an insurance scheme must participate before the scheme can operate. This is considered to be the minimum participation for a sound program.

ROGER DUHAMEL, F.R.S.C.
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The coverage provided under any agreement with a province shall not exceed the established value of 60 per cent of the long-term average yield. The established value of each crop is determined by any method agreed on by Canada and the provinces. The long-term average yield of an insured crop in any area is calculated and determined in a manner approved by the Federal Department of Agriculture. In the Manitoba agreement the long-term average yield is calculated over a 35-year period. However, different periods of time may be used depending largely on yield records which are available.

It is generally accepted that the 60 per cent coverage provided is approximately equal to the cash cost of production.

The agricultural crops insurable under the regulations are—wheat, oats, barley, rye, flax seed, grain corn, buckwheat, soybeans, potatoes, sugarbeets, tobacco, sunflower seed, rapeseed, apples, pears, peaches, plums, cherries and apricots. This list of insurable crops indicates that under the Federal Crop Insurance Act coverage can be provided by provincial schemes in any part of Canada.

In those provinces where the Prairie Farm Assistance Act applies, farmers who take out crop insurance will be exempt from payment of the 1 per cent PFAA levy on grain sales and will not be eligible for benefits provided by that Act.

ADVANTAGES OF CROP INSURANCE

The advantages and benefits you may derive from crop insurance will vary according to the nature and extent of protection provided by it.

Guarantees Protection Against Crop Failures

Crop insurance cushions the shock of disastrous crop loss by assuring you of financial protection against the various

natural hazards beyond your control. Thus, when your province introduces crop insurance in conjunction with the Federal Crop Insurance Act, it enables you and other farmers of that province to help yourselves and thus provide your own defence against crop disaster. Crop insurance gives you the means by which you can acquire a contractual right to assistance in the event of crop failure.

Gives Stability to Farm Income

Crop insurance helps to ensure a considerable measure of security in farm income and thus contributes to greater stability in general economic conditions. It spreads the crop losses over space and time; that is, losses suffered by farmers in particular localities are borne by many scattered over wide areas, and reserves accumulated in good years are used to meet losses in bad years.

Improves Credit Standing—Protects Investment

Crop insurance will also improve your position in relation to agricultural credit. Crop insurance by guaranteeing a protection against crop failures, goes a long way to free farmers from increasing debts. Some farmers have a major investment in the crops they grow. It takes money to buy fertilizer, seed, gasoline, insecticides and pesticides, irrigation water and labor. Many farmers must borrow to put this investment into a crop. Loss of that investment often means the farmer cannot repay that loan. This often exhausts his credit, leaving him without means of financing for subsequent years. But if he has crop insurance, the farmer improves his credit because he can offer it as additional security and use it to pay off his loan if his crop fails. It naturally follows, then, that by improving the economic position of the farmers crop insurance considerably strengthens the financial position of the agricultural credit institutions.

Aids Progress in Farming

Crop insurance gives greater confidence when you are venturing upon the adoption of new and improved farming practices and in making greater investments in agriculture for improving crop yields and increasing agricultural production.

Helps Business in Rural Areas

Crop insurance assists the people of the rural communities and trade centers by providing the opportunity of improving

the stabilities of their incomes through increasing the stability of farmers' incomes on which they depend.

CROP INSURANCE PLANS IN THE PROVINCES

Three provinces, Manitoba, Saskatchewan, and Prince Edward Island have crop insurance programs in operation.

Manitoba has been operating a test area program since 1960. In 1964 some 6,170 farmers in six test areas purchased about $13,500,000 worth of coverage for their crops. After five years of operation premiums, including the federal 20 per cent contribution, have been approximately equal to the amount of indemnities paid to farmers.

With reinsurance of provincial risks provided for, it is anticipated Manitoba will greatly expand its program in 1965.

Saskatchewan first introduced crop insurance on a limited basis in 1961 and has gradually increased the scope of operations. By 1964, 2,356 farmers purchased some $4,000,000 in coverage for wheat, oat and barley crops. After four years of operation the provincial crop insurance agency expects to finish the year with some $400,000 in accumulated reserves.

In Prince Edward Island insurance is provided for grain and potato crops and while the number of participating farmers has been very limited to date, the provincial authorities have accumulated much useful administrative information for use in future years.

Alberta and Nova Scotia have enacted crop insurance legislation and are now in the process of developing suitable programs for their own particular crops and climatic conditions.

Farmers wishing detailed information about provincial crop insurance programs are advised to contact their own provincial Departments of Agriculture.

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